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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of)
)
Federal-State Joint Board on) CC Docket No. 96-45
Universal Service)

DOCKET FILE COPY ORIGINAL

To: The Commission

COMMENTS OF GENERAL COMMUNICATION, INC.

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August 2, 1996

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COMMENTS OF GENERAL COMMUNICATION, INC.

General Communication, Inc. (GCI) hereby files comments in response to the Commission's July 3, 1996, Public Notice (DA 96-1078).

I. Definitions Issues

1. Is it appropriate to assume that current rates for services included within the definition of universal service are affordable, despite variations among companies and service areas?

"Affordability" cannot be determined for each individual customer or for multiple classes of customers. The Joint Board should determine "affordability" based on an average consumer. Section 254(b)(1) does not require the Joint Board to make an evaluation of affordability based on differences in income. The Joint Board should continue Lifeline and LinkUp programs for those currently eligible, but expand the program so that all carriers are able to withdraw monies from the fund.

2. To what extent should non-rate factors, such as subscribership level, telephone expenditures as a percentage of income, cost of living, or local calling area size be considered in

determining the affordability and reasonable comparability of rates?

Universal service support should be based on the differences between the cost of providing the service and the nationwide average rate. The Joint Board cannot evaluate the non-rate factors outlined above in an equitable way. The cost can be determined in a variety of ways. For example, as previously suggested by GCI, the Joint Board could base it on current costs and buy those costs down over time.¹ Alternatively, the costs could be based on proxies.

3. When making the "affordability" determination required by Section 254(i) of the Act, what are the advantages and disadvantages of using a specific national benchmark rate for core services in a proxy model?

Administration of the support must be relatively simple due to the increase in number of parties paying into the fund and an increase in the number of participants eligible to receive support. In establishing a national benchmark, the Joint Board would be simplifying the administration. This would ensure that all consumers would receive service at reasonable and affordable rates.

4. What are the effects on competition if a carrier is denied universal service support because it is technically infeasible for that carrier to provide one or more of the core services?

When one competitor receives universal service support and another carrier does not, the carrier not receiving

¹See Comments of GCI, dated March 12, 1996 and Reply Comments of GCI, dated May 7, 1996.

support is disadvantaged. To minimize this issue, the Joint Board should narrowly define the list of services supported by universal service.

5. A number of commenters proposed various services to be included on the list of supported services, including access to directory assistance, emergency assistance, and advanced services. Although the delivery of these services may require a local loop, do loop costs accurately represent the actual cost of providing core services? To the extent that loop costs do not fully represent the costs associated with including a service in the definition of core services, identify and quantify other costs to be considered.

The local loop will provide access to the services outlined above. Pursuant to the Act, directory assistance will become a competitive service. The Joint Board should not prejudge the outcome of that competitive environment. Emergency services are currently funded either through a surcharge on the end user bill or through a local tax support system. This should continue. Advanced services should not be included in the definition. These services are in their infancy. The Joint Board should wait and see how the natural deployment of advanced services develops prior to including them in the definition of universal service. The Telecommunications Act of 1996 encourages competition and allows the Commission to reevaluate the definition of universal service from "time to time." The quickest and most efficient way to expand the provision of service is to endorse competition and allow the market forces to create and deploy new technology. The Commission should not inhibit these market forces from the get go. If deployment is constrained

after a period of time, the Commission can then expand the definition of universal service.

II. Schools, Libraries, Health Care Providers

7. Does Section 254(h) contemplate that inside wiring or other internal connections to classrooms may be eligible for universal service support of telecommunications services provided to schools and libraries? If so, what is the estimated cost of the inside wiring and other internal connections? _____

Inside wire and other internal connections are not "telecommunications services" and are therefore ineligible for universal service support. "Telecommunications services" are defined in the Act as "the offering of telecommunications for a fee directly to the public, or to such classes of users as to be effectively available directly to the public, regardless of the facilities used." "Telecommunications" is defined as "the transmission, between or among points specified by the user, of information of the user's choosing without change in the form or content of the information as sent and received." Inside wire and other internal connections are not transmission services.

8. To what extent should the provisions of Sections 706 and 708 be considered by the Joint Board and be relied upon to provide advanced services to schools, libraries and health care providers? _____

Section 706 states that the Commission and the state Commissions should encourage the deployment of advanced services on a reasonable and timely basis. The encouragement is to come through regulatory methods such as price cap regulation, regulatory forbearance, or other methods that

would promote competition and eliminate barriers to entry. This section is separate and apart from the universal service section and promotes deployment through competitive means. Section 708 authorizes federal agencies to provide assistance to the National Education Technology Funding Corporation. The Joint Board should use section 706 as an example of allowing competitive forces to deploy advanced services and not mandate those services as ones in need of universal service support. The Joint Board should also recognize that agencies of the federal government are able to provide grants to deploy these services and to promote education.

9. How can universal service support for schools, libraries, and health care providers be structured to promote competition?

The Joint Board must give all carriers an opportunity to provide services to schools, libraries and health care providers. Offerings should not be limited to incumbent carriers. Carriers that have operated in a competitive environment are capable of providing services more quickly at a lower cost. Limiting the ability of all carriers to provide services to these institutions will not achieve the goals of competition. The support should be given to the lowest cost carrier. Rewarding a high cost carrier with the difference between the discount to the schools, libraries and health care providers and the higher cost will not encourage a competitive environment.

10. Should the resale prohibition in Section 254(h)(3) be construed to prohibit only the resale of services to the public for profit, and should it be construed so as to permit

end user cost based fees for services? Would construction in this manner facilitate community networks and/or aggregation of purchasing power? _____

No. Any entity receiving service under Section 254(h)(3) should not be allowed to resale those services to anyone. Under the Act, the support is intended to ensure that the selected entities have access to telecommunications services so that they are able to provide service to children and patients. Allowing resale would be contrary to the Act and would cause the support necessary to achieve the requirements of 254 to increase. Also, competition would be harmed because carriers would be competing against a discount rate for their services.

12. Should discounts be directed to the states in the form of block grants? _____

No. Block grants will increase the administrative costs of the program by mandating over 50 separate administrators. The Joint Board must establish the national rules for support for these entities. The administration and disbursement must be competitively neutral and available to all carriers.

13. Should discounts for schools, libraries, and health care providers take the form of direct billing credits for telecommunications services provided to eligible institutions? _____

The administration must be as simple as possible.

15. What is the least administratively burdensome requirement that could be used to ensure that requests for supported telecommunications services are bona fide requests within the intent of section 254(h)? _____

The Commission should require self-certification.

17. How should discounts be applied, if at all, for schools and libraries and rural health care providers that are currently receiving special rates?

If the special rates are higher than the discount, then the school, libraries and health care providers should receive the discounted rate. If the special rates are lower, then the carrier should not be eligible for support under the system.

III. High Cost Fund

A. General Questions

26. If the existing high-cost support mechanism remains in place (on either a permanent or temporary basis), what modifications, if any, are required to comply with the Telecommunications Act of 1996?

The existing high-cost support mechanism cannot be left in place because it does not comply with the requirements outlined in the Act. The payments are not explicit as required by the Act. For example, the Carrier Common Line (CCL) charge, the Residual Interconnection Charge (RIC) and the Dial Equipment Minute (DEM) weighting are all implicit support mechanisms. Also, support for these implicit subsidies are only recovered from interexchange carriers. Further, the disbursement is not competitively neutral under 214(e). Any support system adopted must break the link between costs of the incumbent carrier and the amount of support received. This type of system will encourage efficiency and competition while ensuring service.

27. If the high-cost support system is kept in place for rural areas, how should it be modified to target the fund better and consistently with the Telecommunications Act of 1996?

As stated above, the current system should not be kept in place, particularly for rural areas. The Joint board needs to establish one system for all carriers, not segregate rural telephone companies into a special class. Competition will be discouraged in rural areas, in conflict with the intent of Congress, if rural companies are treated differently. The Joint Board must create a level field in all areas of the country so that competition can flourish. In areas where competitors do not emerge, the rural telephone company should be encouraged to become as efficient as if a competitor did exist. Either through actual competition or threatened competition, the consumer will benefit.

28. What are the potential advantages and disadvantages of basing the payments to competitive carriers on the book costs of the incumbent local exchange carrier operating in the same service area?
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Beginning with the book costs of the incumbent LEC would be administratively simple. However, those costs contain the inefficiencies of the company. If the Joint Board starts with book costs, it must then break the link between costs and the amount of support and convert those costs to a per line credit. On day one, the incumbent LEC would continue to receive the same amount of support. However, all other carriers under 214(e) would then be eligible for the same support. The new entrant could either receive the same amount of subsidy or a percentage of that subsidy. However, over time the forces of competition and the resulting efficiencies

should drive the subsidy down.²

31. If a bifurcated plan that would allow the use of book costs (instead of proxy costs) were used for rural companies, how should rural companies be defined? _____

A bifurcated approach should not be adopted. This type of system will encourage carriers under price cap regulation to sell exchanges to rural telephone companies at inflated costs to maximize subsidy. If the Joint Board adopts such a system, the definition of rural telephone company for these purposes should be 10,000 access lines. However, any bifurcation will force the rural telephone company to create barriers to entry (beyond just the subsidy) so that other carriers could not prove that competition could work. These barriers would be inconsistent with the Act.

32. If such a bifurcated approach is used, should those carriers initially allowed to use book costs eventually transition to a proxy system or a system of competitive bidding? If these companies are transitioned from book costs, how long should the transition be? What would be the basis for high-cost assistance to competitors under a bifurcated approach, both initially and during a transition period?

Any transition must be short and allow all competitors access to the subsidy as outlined above. The transition should last no longer than five years. The Commission must specifically state that the transition will not be extended. All carriers must receive the same support so that one carrier is not disadvantaged over another. A short transition period is needed to ensure that the fund will not be unduly expanded.

²Id.

During the transition, all carriers seeking entry in a market should not be denied such entry, particularly due to the existence of the inflated subsidy.

B. Proxy Models

34. What, if any, programs (in addition to those aimed at high-cost areas) are needed to ensure that insular areas have affordable telecommunications service?

No additional programs are needed.

41. How should support be calculated for those areas (e.g., insular areas and Alaska) that are not included under the proxy model?

One national system should be adopted. If a proxy model is adopted, Alaska should be included in that model.

43. Should there be recourse for companies whose book costs are substantially above the costs projected for them under a proxy model? If so, under what conditions (for example, at what cost levels above the proxy amount) should carriers be granted a waiver allowing alternative treatment? What standards should be used when considering such requests?

Carriers should not be granted special treatment solely because their book costs differ from the proxy model.

45. Is it appropriate for a proxy model adopted by the Commission in this proceeding to be subject to proprietary restrictions, or must such a model be a public document?

No model should be adopted that includes proprietary data.

46. Should a proxy model be adopted if it is based on proprietary data that may not be available for public review?

No.

IV. SLC/CCLC

69. If a portion of the CCL charge represents a subsidy to support universal service, what is the total amount of the subsidy?

Please provide supporting evidence to substantiate such estimates. Supporting evidence should indicate the cost methodology used to estimate the magnitude of the subsidy (e.g., long-run incremental, short-run incremental, fully-distributed).

The CCL charge recovers the portion of the loop costs which are arbitrarily allocated to the interstate jurisdiction. Recovering these costs through a CCL charge from interexchange carriers only is inconsistent with the Act.

Conclusion

Universal service support is dependent on a system that ensures distribution through a competitively neutral system and which breaks the link between increases in costs translating into increases in subsidy. The Joint Board and Commission should restructure support so that carriers will minimize cost and provide the most efficient network.

Respectfully submitted,

General Communication, Inc.

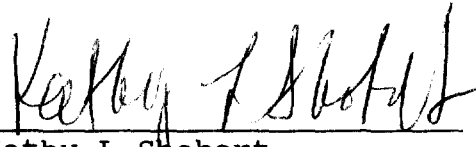


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August 2, 1996

STATEMENT OF VERIFICATION

I have read the foregoing, and to the best of my knowledge, information and belief there is good ground to support it, and that it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed August 2, 1996.

A handwritten signature in black ink, appearing to read "Kathy L. Shobert", written over a horizontal line.

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CERTIFICATE OF SERVICE

I, Kathy L. Shobert, do hereby certify that on this 2nd day of August 1996, a copy of the foregoing was sent by first class U.S. mail, postage prepaid, to the parties listed below:

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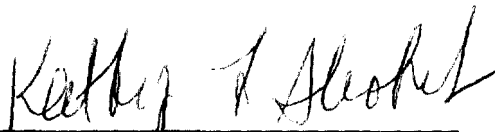
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